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SUBJECT: UZBEK ELECTRICAL GENERATION AND EXPORT PROSPECTS,  
AND NATURAL GAS SALES

Classified By: P/E Chief Ted Burkhalter; reasons 1.4 (b, d).

11. (SBU) Summary: Emboffs met with Botir Teshaboev, the Chairman of state-owned Uzbekenergo, on December 21, to discuss domestic electricity generation, infrastructure and export. Uzbekenergo is modernizing many of its generation facilities, most of which are natural gas fired, increasing efficiency and slightly increasing the percentage of coal fired generation. Natural gas exports are more profitable than exports of electricity, and for this reason, among others, Uzbekistan has a tempered interest in increased electricity exports to Afghanistan. End summary.

12. (U) Uzbekistan is expected to export natural gas in 2008 for USD 150-180 per 1,000 cubic meters (pricing deals have been reached but details remain close held). Natural gas is one of Uzbekistan's largest revenue-generating resources and Uzbekenergo is undertaking programs to cut natural gas usage in order to increase gas exports. Teshaboev said the company is modernizing the two coal plants that supply electricity to Tashkent (both located in the vicinity of Angren) and investing in new combines that will cut natural gas use by half "but produce 50 percent more energy." Uzbekenergo also intends in the near term to increase coal usage from 5 to 12 percent of total energy consumption.

13. (SBU) Teshaboev told Econoff and P/E Chief that 85 percent of Uzbekistan's electricity is thermal generated (natural gas and some coal). Uzbekistan exports excess electricity to neighboring countries, including the Afghan province of Balakh, which includes Mazar-i Sharif. Exports to neighboring countries are primarily during winter and are governed by annual, bilateral agreements. (Most bilateral talks for 2008 have concluded.) The Chairman stated Uzbek electricity is the costliest in the region and is often prohibitively expensive to its neighbors. He said hydro projects in Kyrgyzstan and Tajikistan will eventually produce electricity for less, likely causing a decrease in

Uzbekenergo exports to Afghanistan. Additionally, he added, existing Afghan grids are incapable of delivering substantial flows of Uzbek power from Balakh to Kabul, and this also acts as a limiting factor on the amount of energy sold to Afghanistan.

¶4. (SBU) Teshaboev told emboffs there are five main electricity projects to build transformers, substations, or higher-voltage lines. Three are financed by Uzbekistan, one by the European Bank for Reconstruction and Development (EBRD) and the fifth, in the south of the country, by the Islamic Development Bank (IDB). Uzbekenergo intends to partially privatize its thermal power plants, but not its hydropower plants, as the latter are directly linked to Uzbekistan's agricultural fecundity.

¶5. (SBU) Uzbekistan is increasingly voicing its interest in carbon credits and renewable energy projects financed by foreign capital. The government likely believes it can maximize profits by increasing its already low coal consumption, selling carbon credits, and exporting unused natural gas.

Comment on electricity exports to Afghanistan

¶6. (C) Teshaboev clearly downplayed prospects for Uzbek sales of electricity to Afghanistan. In large part, this is a reflection of market realities. Uzbekistan can make more money exporting natural gas than exporting electricity generated by natural gas. It is probably also a reflection of Russia's continued dominance of the Uzbek natural gas industry. Russia has less interest than we in securing

electricity for Afghanistan and is instead focused on maximizing northbound natural gas exports. Despite Uzbek attempts to develop attractive alternative markets for its gas, and despite pricing and control hurdles in the Uzbek-Russian relationship, Russian money talks.

¶7. (C) On the other hand, increased delivery of electricity to Afghanistan is not out of the question. Uzbekistan is investing in transmission and generation projects that would increase delivery capacity to Afghanistan within a year to two. The Uzbeks also recently agreed to allow the Afghans to reconstruct a main section of the electrical line in Uzbekistan supplying power to Afghanistan. The World Bank, meanwhile, has funded upgrades that are supposed to increase transmission capacity from northern Afghanistan to Kabul by ¶2010. This is a long list of ifs, and Uzbekistan has an even longer record of leading suitors by the nose. Still, success is by no means impossible.

NORLAND